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Users' acceptance of financial technology in an emerging market (An empirical study in Indonesia)

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ABSTRAK

Tujuan utama penelitian ini adalah untuk mengetahui determinan pemakaian teknologi keuangan oleh konsumen untuk memenuhi kebutuhan keuangannya di pasar negara berkembang. Teknologi keuangan meliputi gerbang pembayaran, pinjaman online, penawaran produk online, literasi keuangan. Penelitian ini menganalisis lima faktor terkait konsumen yakni demografi, psikografi, literasi perbankan, kesadaran teknologi dan kepercayaan terhadap regulator. Dari kelima variabel tersebut dicerminkan ke dalam 15 pengukuran. Dari ke-15 variabel ini akan menjelaskan variabel yang mempengaruhi seseorang dalam menggunakan teknologi keuangan. Penelitian ini mempergunakan binary logit test. Dalam model binary logit test, konsumen yang menggunakan teknologi dan yang tidak menggunakan teknologi akan diukur dengan variabel dummy. Penelitan menggunakan sampel dengan 298 responden. Responden terdiri dari generasi milenial terbesar yakni 56 persen, lulusan perguruan tinggi 75 persen, pendapatan kelas A dan B sebesar 67 persen, memiliki rekening bank sebanyak 95 persen dan memiliki sosial media sebanyak 99 persen. Hasil penelitian menunjukkan bahwa konsumen dari generasi milenial dengan pendapatan kelas A dan B menjadi kelompok penerimaan atau pengunaan teknologi keuangan tertinggi. Jenis kelamin juga memiliki implikasi terhadap penerimaan teknologi. Semua variabel diuji dengan tingkat □ <5 persen.

ABSTRACT

This study seeks to investigate the factors that affect consumers' use of financial technology in fulfilling their financial needs in the emerging market. The financial technology consists of payment gateway, peer to peer lending, online financial product offering, and financial literacy. The paper analyzes five major customers' aspects, i.e., demography, psychography, banking literacy, technology awareness, and trust of regulatory that consist of 15 variables of customer responses. Those 15 variables explain individuals' use of financial technology. The binary logit regression technique tests the research models. In the model, consumers' acceptance (whether one

will use financial technology) is operationalized by a dummy variable that equals one if the consumer accepts or is aware of the technology and zero otherwise. The total sample is 298 respondents. The respondents are mostly millennial generation (56 percent), university graduates (76 percent), individuals with the income level of B-Class and A-Class (67 percent), 95 percent of the respondents have bank accounts, and almost 99 percent of the respondents have social media accounts. The empirical results show that millennial-age customers with the income levels of B-Class and A-Class have the highest financial technology acceptance. Gender also influences the acceptance level of financial technology.

INTRODUCTION

Industry 4.0 has been emerging as a widely discussed subject since 2004. Technological development has brought forth advancement in many different fields, including the financial industry. The financial industry utilizes the latest technology to serve customers, facilitate payment, and determine credit approvals (Hadad, 2017). Banks and other financial institutions can enter the financial technology era by transforming their business models into more efficient models to compete with new firms that use financial technology. Hence, banks that use financial technology can cooperate with conventional banks and are not necessarily in competition with conventional banks such as in peer to peer lending service (Milne & Parboteeah, 2016).

In Indonesia, financial technology firms (fintech firms) are developing very rapidly. Currently, more than 200 legal and illegal firms are operating in the financial technology industry. Most businesses in financial technology are payment system, e-aggregator, peer to peer lending, crowdfunding, and financial advisory. However, the business operation of illegal firms will not be authorized by the Financial Services Authority.

Fintech firms have challenged conventional financial firms such as banks, insurance firms, and securities firms in their daily business activities. Some fintech firms such as Gojek that use the Go-pay payment method and Grab that uses the OVO payment method have developed faster than similar conventional financial firms. Conventional financial firms, banks or non-banks, have converted some of their businesses using financial technology. Firms engaged in financial technology can develop well, but it takes time, and the community should be educated about the advantages of financial technology (Ferdiana & Darma, 2019).

However, these conventional financial firms have difficulties in increasing the number of their customers. They have difficulties in attracting customers to use internet banking, and in influencing consumers to use financial technology and on what stage model that can be used for adopting financial technology. Besides, there are only a few studies in this field in developing countries, such as in Indonesia. In

financial technology, financial firms in Indonesia still encounter obstacles related to internet speed and financial literacy.

In this study, the primary research purpose is to find out the main factors that influence people to accept financial technology in their daily financial activities in the emerging market, especially in Indonesia. The result of this study will guide firms that use financial technology to be able to penetrate new customers.

The rest of the study is organized as follows: Section 1 describes introduction; Section 2 illustrates data and methodology; Section 3 describes results and discussion, and finally, Section 4 provides conclusions and recommendations. In this study, the main factors that influence people to use financial technology will be categorized into five variables, namely, demography, psychography, banking literacy, technology awareness, and trust of regulation.

LITERATURE REVIEW AND HYPOTHESIS

Financial technology (fintech) firms are building business models that allow them to compete with conventional banking firms. On the contrary, conventional banking firms are also looking for business models and strategies to attract customers. Despite the rapid development of financial technology, they are still unable to reach all potential customers. Saksonova and Kuzmina-Merlino (2017) evaluated the development of financial technology in Latvia and showed that respondents were generally unaware of fintech services in Latvia along with innovations and new financial products.

Unfortunately, financial technology, particularly in emerging markets, is still relatively understudied. The existing studies are Cao (2016); Chuang, Liu, and Kao (2016); Ferdiana and Darma (2019); Frame, Wall, and White (2018); Rizvi, Naqvi, and Tanveer (2018); Ryu (2018, 2018); Stern, Makinen, and Qian (2017); Teja (2017).

For example, Cao (2016) studied the significant factors affecting the acceptance of the all-in-one payment method (plastic card) in Finland. The results validated some variables in the new domain (financial technology) and supported the past studies that personal innovativeness, perceived enjoyment, security concerns, perceived usefulness, and price value directly affects users' behavior intention.

Further, Afshan and Sharif (2016) found that task and technology characteristics significantly contribute to facilitating technology, for example, initial trust and facilitating condition in adopting m-banking. Fathima and Muthumani (2015) found that the perceived usefulness, trust, credibility, and perceived ease to use as the most influential factors for user acceptance of internet banking technology. Chuang et al. (2016) also showed that brand and service trust had a significantly positive effect on attitudes toward using fintech services.

Similarly, Ezeh and Nwankwo (2017) confirmed that the perceived ease of use, perceived financial cost, and the amount of information about mobile money are essential influencers for customers' intention to accept mobile money. However, perceived usefulness, perceived credibility, perceived expressiveness, and self-efficacy are not significant in predicting customers' intention to accept mobile money.

Stern et al. (2017) aimed to provide an overview of financial technology in China. The empirical findings indicated that P2P lending was more extensive in the region with more mobile phone subscriptions. The outstanding balance of P2P lenders was negatively associated with the size of the traditional banking sector, while the number of P2P platforms was negatively related to the fixed asset investment. However, the average yield was positively associated with fixed-asset investments.

Fawzy and Esawai (2017) showed that website characteristics, computer efficacy, and perceived risk had a direct impact on customers' adoption of internet banking. They suggested that banks give continuous attention to their websites and provide their customers with secure and useful access to internet banking services. Moreover, Nor and Pearson (2007) showed that trust, relative advantage, and trialability have a significant effect on attitudes toward the use of internet banking. Similarly, Teja (2017) showed that firms with higher competency to foster and collaborate with other firms, even though they start with basic innovative products, were more likely to reach a minimum critical mass of adopter and to become leaders in their business ecosystems. Also, Frame et al. (2018) described the role of the financial system in a modern economy and how technological changes and financial innovations can affect social welfare.

Ryu (2018b) showed that legal risk had the most significant adverse effect, whereas convenience had the most significant positive impact on Fintech firms. Several factors influenced the difference between early adopters and late adopters. Rizvi et al. (2018) provided a qualitative assessment of economic, demographic, and technological factors that are conducive to the penetration and growth of financial technology in Pakistan. Meanwhile, this paper seeks to investigate the regulatory framework governing Fintech and its contribution to the segment creation of active or dormant players in the financial services industry.

Ryu (2018a) revealed that legal risk had the most detrimental effect on the Fintech continuance intention, while convenience had the most substantial positive effect. Differences between early and late adopters are in specific benefits and risk impacts. Meanwhile, Ferdiana and Darma (2019), who explored young people's understanding and interest in financial technology regarding transactions using Go-pay payment, also found out about the young people's understanding of the issue of cashless.

Although there are numerous studies available concerning industry that takes advantage of financial technology, there are no conclusive results yet on the

acceptance or usage of financial technology in the industry. Therefore, it is essential to explore this issue, especially in emerging markets.

This study will analyze the variables of acceptance of financial technology in emerging markets such as in Indonesia. Thus, it is essential that customers accept financial technology. Figure 1 illustrates the life cycle of a product in which the first stage is a product introduction to the customer, and the last stage is the customer's acceptance of the product.

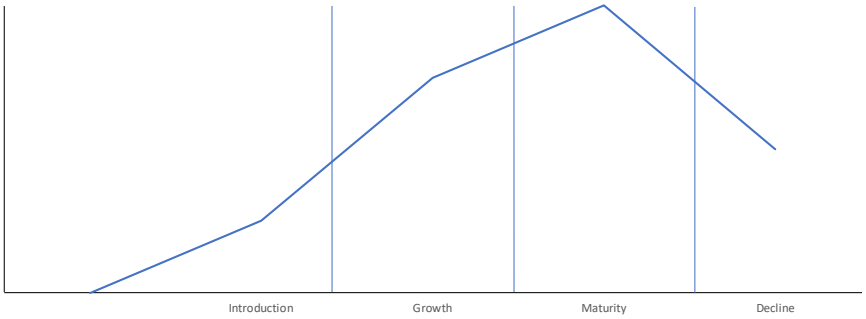

Figure 1
Product Life Cycle

This study uses several variables. The first one is demography to analyze the impact of respondents' background influences the awareness of financial technology. The demographic background is an important variable for the fintech implementation strategy. Demography includes age, gender, education, income, and ownership of assets. Demography includes age, gender, education, income, and ownership of assets. Individuals' increasing complexity and scope motivate them to use financial technology in their daily activities. Younger and highly educated individuals are also motivated to adopt technological development than other individuals (Cao, 2016); Stern et al., 2017). Rizvi et al. (2018) explain that individuals, regardless of their gender, modern technology is beneficial and make life more comfortable. Also, financial technology is more beneficial for individuals with more business transactions that require rapid business decisions. Thus, the first hypothesis can be formulated as follows:

H1: Demography influences the acceptance of financial technology.

The second variable is the psychography that refers to the usage or ownership of social media accounts. Individuals who are familiar with the use of information technology will be more technology literate in using the technology in their daily life (Cao, 2016; Chuang et al., 2016; Ferdiana & Darma, 2019). Technological development offers continuously evolving innovation to humans. It

even also offers financial services that make financial transaction processing easier and more practical. Consequently, this research uses social media as a variable in the use of financial technology. Thus, the second hypothesis can be formulated as follows:

H2: Psychography influences the acceptance of financial technology.

Meanwhile, banking literacy, as the third variable, represents respondents' ownership of banking products. Financial technology is a financial product. In line with global economic development, innovation and the use of various technology have transformed banking business worldwide. Financial technology has been an integral part of the banking system (Romānova & Kudinska, 2016). Individuals who often use banking transactions tend to require technology that is easy, efficient, and not restricted to place and time in processing their activities (Ferdiana & Darma, 2019). Besides, exposures on bank service products and their benefits also motivate individuals to accept and use offered applications. Therefore the research uses the current financial literacy as a variable that will affect the usage of financial technology. Thus, the third hypothesis can be formulated as follows:

H3: Banking literature influences the acceptance of financial technology.

Technology awareness as the fourth variable is related to the acceptance and awareness of respondents toward financial technology. Financial technology utilizes technology to replace existing conventional processes (Cao, 2016; Rizvi et al., 2018). Individuals with open thoughts will be easier to accept changes and innovation in their lives, including in responding to information technology development. Open thoughts will arguably strengthen technological awareness and, in turn, technology acceptance. The argument also likely applies to financial technology acceptance that is increasingly pervasive nowadays. Moreover, this research is using technology mastery variables as variables in the use of financial technology. Therefore, the fourth hypothesis can be formulated as follows:

H4: Technology awareness influences the acceptance of financial technology.

Trust in regulation refers to awareness of the regulations of financial technology and supervision by the Financial Services Authority. The supervision will arguably convince consumers to use of financial technology (Ryu, 2018a). Financial technology development in many countries, including Indonesia, is growing very rapidly during the 4.0 industrial revolution era. Financial technology offers positive changes in the financial industry through cost reduction, increased quality of bank services, and more stable and varied bank service designs(Lee & Shin, 2018). The vision can be achieved when the government, as the regulator, offers incentives in the form of various policies and regulations to create financial technology-based

communities. Eventually, consumers will positively respond to various financial service innovation when they have trust on offered services. Therefore, the fifth hypothesis can be formulated as follows:

H5: Trust of regulator influences the acceptance of financial technology.

RESEARCH METHOD

This study uses primary data that was collected from the survey. The sample consists of 298 respondents. The survey received responses from 350 respondents, which among those responses, only 298 responses were valid.

Considering the size and diversity of the population in Indonesia, this study used a survey method with the dependent variable was the awareness of financial technology. Respondents answered the survey for awareness of financial technology by informing their knowledge about financial technology. Because the responses were binary, this study used a binary logit method.

In the binary logit model, the customer's acceptance of financial technology is indicated by a dummy variable that equals one if the customer is aware of financial technology and zero otherwise. The probability of being rejected is related to a set of descriptive variables Xi. The log of the odds ratio in favor of being accepted is not only linear with X but also (from estimation viewpoint) in linear with parameters (Misra, 2009).

This study suggests estimating the following logit model to test the hypothesis:

$$P(Y) = \left(\frac{1}{1+e^{-y}}\right) \quad \text{..... 1}$$

Using a logit transformation, a linear function of explanatory variables will be as follows:

$$Logit(pi) = log_e\left(\frac{P(Y)}{1 - P(Y)}\right) \quad \text{..... 2}$$

Where Y = 1 if respondents will accept financial technology and Y = 0 otherwise. The model has also been used by Misra (2009) and Johan (2018) to predict merger and acquisition targets. The prediction model show below :

$$Y_{it} = \beta 0 + \beta 1\, Ge_i + \beta 2\, Ag_i + \beta 3\, Eb_i + \beta 4\, Ms_i + \beta 5\, Il_i + \beta 6\, Ho_i + \beta 7\, Mo_i + \beta 8\, Ba_i + \beta 9\, CC_i + \beta 10\, Lf_i + \beta 11\, Sm_i + \beta 12\, Af_i + \beta 13\, Uf_i + \beta 14\, Tf_i + \beta 15\, Ao_i + e_{it} \quad \text{..... 3}$$

Where 1 = acceptance of financial technology and 0 = acceptance of financial technology, β1 = constant, β2 ... βi = regression coefficient, Ɛ = error term

Variables and Measurement

Table 1 below describes the research variables and their measurements.

Table 1
Research Variable

No.	Variable	Measurements	Code
		Gender	Ge
		Age	Ag
		Education Background	Eb
1	Demography	Marital Status	Ms
		Income Level	Il
		House Ownership	Ho
		Mobile Phone Ownership	Mo
2	Psychography	Social Media Account	Sm
3	Banking	Bank Account	Ba
	Literature	Credit Card	Cc
		A loan from a financial institution	Lf
4	Technology	Aware of financial technology	Af
	Awareness	Usage of financial technology	Uf
5	Trust on	Trust of financial technology	Tf
	Regulation	Aware of OJK regulation	Ao

The demography variable refers to Cao (2016), Rizvi et al. (2018), and Stern et al. (2017). Meanwhile, the research uses Cao (2016), Chuang et al. (2016), and Ferdiana and Darma (2019) in operationalizing the psychography variable. Next, the banking literacy variable is developed by the use of bank products or services, either for savings or loans. Further, the technology awareness variable is developed by referring to Cao (2016); Rizvi et al. (2018). Lastly, the trust of regulation refers to Ryu (2018a).

Table 3
Descriptive Statistic

No.	Measurements	N	Minimum	Maximum	Median	St. Deviation
1	Gender	298	0	1	0.56	0.497
2	Age	298	0	3	1.44	0.764
3	Education	298	0	2	1.53	0.766
4	Marital Status	298	0	1	0.60	0.491
5	Income Level	298	0	3	1.93	1.033
6	House Ownership	298	0	1	0.60	0.490
7	Mobil phone ownership	298	0	2	0.48	0.576
8	Social media account	298	0	1	0.99	0.82
9	Bank Account	298	0	1	0.95	0.212
10	Credit Card	298	0	1	0.62	0.487
11	Loan from FI	298	0	1	0.46	0.499
12	Awareness of Fintech	298	0	1	0.72	0.447
13	Usage of Financial Technology	298	0	1	0.10	0.306
14	Trust on Regulation	298	0	1	0.47	0.500
15	Aware of OJK control	298	0	1	0.27	0.446

DISCUSSION

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Source: primary data, processed (2019)

Of the total 298 respondents, 56 percent of the respondents were male, and 43.6 percent were female. Also, 56.4 percent of respondents were within the range of millennial age, and 69.2 percent of the respondents were university graduates.

Related to fixed asset ownership, 60.4 percent of the respondents owned fixed properties, and all the respondents had mobile phones. Among 298 respondents, 99.3 percent owned social media accounts, 95.3 percent owned bank accounts, and 86.8 percent of the respondents were aware of financial technology. However, only 26.8 percent of the respondents were aware that OJK (Finance Service Authority) is the regulator that controls financial technology, and 72 percent of the respondents were aware of financial technology. Hence, only 10.3 percent of the respondents were considering to use financial technology.

The result of the Omnibus Test is 0.001 and significant at α= 0.05. On the fit of the model, the result of the Hosmer and Lemeshow test is 0.252> 0.05, indicating that the model fits. The Nagelkerke R2 shows 0.230; it means that the model explains the determinant factors at 23 percent, and the classification table shows 88.6 percent.

The Results of the H1 Testing (Demography)

By using the logit binary test, the study finds that the demography variable has a significant influence on the acceptance of financial technology. The demography variable consists of gender, age, and income level. The findings demonstrate that age, gender, and income level motivate customers to accept financial technology. Most of the respondents were millennials. These results support Cao (2016); Rizvi et al. (2018); Stern et al. (2017).

Age and income levels have a significant influence on the use of technology, and this is in line with the development of millennial generation in the use of technology. The use of communication tools, such as mobile phones that are indeed owned by middle-income groups.

The findings show that young consumers with upper and middle incomes have become the main target of financial technology. This finding is in line with the increase in Indonesian consumers' income. The acceptance of financial technology is also in line with the lifestyle changes of the young generation, such as the use of e-wallets, e-commerce, e-marketplaces, and others.

The Results of the H2 Testing (Psychography)

The ownership or usage of social media accounts does not affect customer behavior to utilize financial technology. The results show that there is no direct relationship between the ownership of social media accounts or activity in social media and the acceptance of financial technology.

Someone who uses financial technology, not related to their social media activities. The use of financial technology is more likely to be of financial needs rather than interaction on social media. So that social media is not a significant variable in the use of social media.

The results also show that the acceptance of financial technology does not have a direct correlation with the usage of social media. The respondents use social media usually only to update status and see others' activities, and they use financial technology for their financial needs.

The Results of the H3 Testing (Banking Literacy)

Banking literacy has no significant impact on financial technology usage. Nonetheless, banking literacy is useful for the conventional banking system. Banks should provide new approaches to reach financial inclusion. Banking literacy, however, has a positive influence on the acceptance of financial technology.

Financial technology aims to increase financial inclusion so that users of financial technology are not users of the current financial system. So this research shows that the users of financial technology are not yet the use of conventional financial systems.

These results are in line with the results of the first hypothesis that the young generation and millennials are the prime users of financial technology. Although most young people do not use credit cards or conventional loans, they use financial technology such as e-money and e-wallet.

The Results of the H4 Testing (Technology Awareness)

The results show that technology awareness has no significant impact on the

acceptance of financial technology. Thus, this hypothesis that predicts the relationship between awareness of technology and acceptance of financial technology is not supported.

The use of financial technology does not require intricate knowledge in its use. Financial technology is made so easy that technology awareness is not something that affects the use of financial technology.

The acceptance of financial technology will enhance the acceptance of technology usage. However, this study shows that awareness of technology is not a factor in influencing financial usage. The results show that there is great potential for financial technology in the future. The results show that the higher the usage of technology, the higher the usage of financial technology in the future.

The Results of the H5 Testing (Trust on Regulation)

Trust in regulation is essential as one of the critical factors for customers to use financial technology. Nevertheless, the results show that trust in regulation has a positive effect on the usage of financial technology applications.

In the initial stages, when the financial technology user community is not too aware of the importance of authority oversight. However, having conflicts between fintech firms and users, consumer awareness of technological surveillance is increasingly important. So that in the future, regulator supervision will be an essential variable.

The usage of financial technology is affected by the supervision of the relevant authorities. The fact that the financial industry is strictly regulated by the authorities is an important aspect of the usage of financial technology. In many cases, financial technology, especially in peer to peer lending online loan experiences problems due to high-interest rates. Supervision from the authority will prompt a trust on the use of financial technology. The development of financial technology has made many disputes between the Peer to Peer Lending (P2P) and the customer so that financial technology companies are required to be registered with the Financial Services Authority (FSA). The purpose of registering or obtaining permission from the Financial Services Authority is to protect the interests of consumers. So that consumer confidence in financial technology will increase.

DISCUSSION

The empirical test shows that the demographic variables, especially gender, age, and income level, affect users' acceptance of financial technology. In contrast, other variables do not affect the dependent variable as predicted. Overall, the results suggest that male, younger, and high-income consumers are more likely to accept financial technology. Younger consumers are arguably more familiar with general

information and communication technology. Consequently, they are willing to accept financial technology. Also, high-income consumers are more willing to accept financial technology probably because they are more willing to take risks in trying financial technology.

Meanwhile, the insignificance of the other variables indicates that consumers' psychography, general technology awareness, and their banking experience are less relevant in explaining their acceptance of financial technology. Also, regulation is likely less able to explain users' acceptance of financial technology, thus implying that consumers do not associate regulations in financial technology with their acceptance of financial technology.

Managerial Implications

Based on the results of this study, fintech firms should focus on the demographic variables of their customers, such as gender, age, and income level, to penetrate the acceptance level. Fintech firms should promote financial technology to their customers based on their demographic map. For example, they can focus their marketing activities for male, younger, and high-income consumers. For regulators, it is also essential for them to focus on the demographic variables for financial inclusion. For example, they can educate female, older, and low-income population about the advantages offered by financial technology. The government needs to create more programs to increase financial inclusion by leveraging financial technology, especially in rural areas.

CONCLUSION, LIMITATIONS, AND SUGGESTIONS

The financial technology industries have multiplied over the last five years. The researcher has analyzed five significant customer backgrounds, i.e., demography, psychography, banking literacy, technology awareness, and trust of regulatory. Those five primary backgrounds are divided into 15 measurements of customer responses, and this study uses a binary logit regression technique to analyze the response measurements. The empirical results show that the millennial age customer and customer with the income levels of B and A-Classes as the majority users of financial technology. Gender type also influences the acceptance of financial technology. All variables are significant at a <5 percent.

The study has several caveats that limit the generalization of the results. For example, the research sample was highly concentrated in the millennial generation. Also, there are five determinant variables, while there are more variables that will impact the usage of financial technology. It is then suggested that future studies add more samples from other generation segments. Besides, other variables can be added, such as employment status, knowledge of technology, financial literacy, and others.

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APPENDIX

Table 4
Research Results

No	Variable	Measurement	Fintech Determinant		Score
1	Demography	Gender	-1.002	**	0.367
			(0.487)		
		Age	-0.822	***	0.439
			(0.312)		
		Education Background	-0.191		0.826
			(0.272)		
		Marital Status	-0.110		0.896
			(0.569)		
		Income Level	0.774	***	2.169
			(0.270)		
		House Ownership	-0.151		0.860
			(0.534)		
		Mobile Phone Ownership	-0.268		0.765
			(0.363)		
2	Psychography	Social Media Account	0.333		1.396
			(1.662)		
3	Banking Literature	Bank Account	0.854		2.348
			(0.735)		
		Credit Card	0.698		2.010
			(0.460)		
		Loan from financial institution	0.002		1.002
			(0.490)		
4	Technology Awareness	Aware of financial technology	-0.273		0.761
			(0.480)		
		Usage of financial technology	-0.015		0.985
			(0.789)		
5	Trust in Regulatory	Trust of financial technology	0.472		1.602
			(0.456)		
		Aware of OJK regulation	0.506		1.659
			(0.547)		
		Omnibus Test	0.001		
		Nagelkerke R2	0.230		
		Hosmer and Lemeshow	0.252		
		Classification Table	88.6		

Notes:
1) Numbers in ( ) shows estimated standard error
2) *) significant at the 10% significance level
**) significant at the 5% significance level
***) significant at the 1% significance level